

# Reserve Bank of India

RBI, also known as the Reserve Bank of India, is the statutory body that acts as the country's central bank that handles the country's economic stability and growth. It manages all the significant monetary policies of the government. One of the most important functions of RBI is to be the banker's bank.

The RBI was established on 1 April 1935 following the Reserve Bank of India Act, 1934, in Kolkata, India. There are three primary RBI Functions, i.e., to control inflation, encourage growth and achieve financial stability.

## History of RBI

The Reserve Bank of India (RBI) was established as the central bank of India based on the recommendations of the Hilton Young Commission. The statutory basis of the Bank's functioning is provided by the Reserve Bank of India Act of 1934. The functioning of the Bank began on April 1, 1935, by taking over from the government (previously performed by the Controller of Currency), the management of Government accounts and public debt, and the Imperial Bank of India.

The existing currency offices of Cawnpore (Kanpur), Lahore, Karachi, Rangoon, Madras, Bombay, and Calcutta were converted into the Issue Department branches while the new Banking departments were established in Rangoon, Delhi, Madras, Bombay, and Calcutta. After the partition of the country into two separate countries, the Reserve Bank acted as Pakistan's central bank (upto June 1948). The Shareholder's Bank was nationalized as the Reserve Bank of India in 1949.

## RBI Composition

Affairs of the RBI are governed by a central board of directors appointed by the Indian government according to the Reserve Bank of India Act. These directors are elected for four years. The directors are of these kinds-

- **Official Directors-** These are full-time directors. It includes Governors and less than five Deputy Governors. The Governor of RBI in 2022 is Shri Shaktikanta.
- **Non-Official Directors-** These are further of two types-
  - a) Nominated by the government- It includes 2 government officials and 10 directors of different fields.
  - b) Others- It includes 4 directors. Each of these directors belongs to 4 regional bodies.

RBI has 4 zonal offices- Mumbai for the west, Kolkata for the east, Chennai for the South, and New Delhi for the North. Along with this, the RBI has 11 sub-offices and 18 regional offices.

Also, there are two training colleges. These are-

- College of Agricultural Banking at Pune
- Reserve Bank Staff College at Chennai

## Governor of Reserve Bank of India

The present RBI Governor is Shaktikanta Das. He is the former Secretary of the Revenue Department, Ministry of Finance, and Department of Economic Affairs. He assumed charge as the Governor of RBI on December 12, 2018. Here is the list of 25 Governors of Reserve Bank of India-

Shri Shaktikanta Das	A Ghosh	P C Bhattacharya
Dr. Urjit R. Patel	Dr. Manmohan Singh	H V R Iengar
Dr. Raghuram Rajan	Dr. I G Patel	K G Ambegaonkar
Dr. D. Subbarao	M Narasimham	Sir Benegal Rama Rau
Dr. Y V Reddy	K R Puri	Sir C D Deshmukh
Dr. Bimal Jalan	N C Sen Gupta	Sir James Taylor
Dr. C Rangarajan	S Jagannathan	Sir Osborne Smith
S Venkitaramanan	B N Adarkar	-
R N Malhotra	L K Jha	-

The tenure of the governor of RBI is 3 years. An individual aiming to become the Governor of the Reserve Bank of India must fulfill the following criteria-

- He/she must be a graduate of a recognized university
- He/she must be 35 years of age.
- He/she should not be a member of parliament or state legislature.

## Functions of RBI

The Preamble explains the essential functions of the RBI as "*to regulate the issue of Bank Notes and to keep of reserves to secure monetary stability in India and generally to operate the currency and credit system of the country to its advantage.*"

RBI is the central body that works as the Monetary authority and works for managing foreign exchange and issues the currency. Along with this, the RBI regulates and administers the country's financial system. All the functions of the Reserve Bank of India are given below.

- **Monetary Authority-** As the monetary authority of India, the RBI implements and monitors monetary policies. It ensures price stability in India concerning the country's economic growth.
- **Managing Foreign Exchange-** FOREX Reserve of India is governed by the RBI. Along with this, the RBI stands responsible for aiding the foreign trade payment and maintaining the Rupee's value outside the country.

- **Regulator and Administrator of the Financial System-** The RBI determines the comprehensive parameters of the banking operations. Methods such as branch expansion, bank mergers, liquidity of assets, issuing of licenses, etc., are responsible for maintaining and functioning the banking and financial system of the country.
- **The Issuer of Currency-** RBI is responsible for providing the public with an adequate amount of currency notes and coins and maintaining their quality. Also, it is in charge of issuing and exchanging coins and currency.
- **Banker to Banks-** The settlement of interbank transactions is the sole responsibility of the RBI. The employment of a clearing house accomplishes it. Thus, the RBI serves as the bank's standard banker.
- **Developmental Role-** The RBI supports and enhances the country's developmental efforts.
- **Banker and Debt Manager of the Government-** The charge of all the banking transactions of the government is the RBI. The RBI stands responsible for holding the cash holdings of the government of India. Also, the RBI manages the public debts on behalf of the state and federal governments and offers new loans.
- **Oversees Market Operations-** The RBI regulates and develops repo markets, money markets, and other market instruments. It implements money market operations, foreign exchange, and government securities.
- **Lender of last resort-** It helps all banks in times of financial crises.

## Objectives of RBI

The chief objectives of RBI are to sustain the public's confidence in the system, protect the interests of the depositors, and offer cost-effective banking services like cooperative banking and commercial banking to the people. As per the RBI Act 1934, the objective of RBI are as follows-

- To run the nation's currency and credit system.
- To maintain reserves for securing monetary stability in India.
- To govern the issue of bank notes.
- To maintain financial stability or credit by engaging in effective activities and keeping itself free from any political impact.
- To perform central banking functions by acting as Banker's bank, Banker to government, and note-issuing authority.
- To promote economic growth and support planned advancement of the economy of the country..

## Powers of RBI

As per the Reserve Bank of India Act of 1934 and Banking Regulation Act of 1949, the RBI has the following powers over commercial banks-

- reconstruction and liquidation
- amalgamation (merger)
- management and methods of working
- liquidity of their assets
- Branch expansion
- Licensing and establishment

## Necessary Acts Administered by the RBI

The essential acts administered by the Reserve Bank of India are as follows-

- Factoring Regulation Act, 2011
- Payment and Settlement Systems Act, 2007
- Government Securities Regulations, 2007
- Credit Information Companies (Regulation) Act, 2005
- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Chapter II)
- Foreign Exchange Management Act, 1999
- Banking Regulation Act, 1949
- Public Debt Act, 1944/Government Securities Act, 2006
- Reserve Bank of India Act, 1934

## Role of RBI in Indian Economy

RBI is an institution of national importance and the pillar of the surging Indian economy that draws its powers from the Banking Regulation Act of 1949. It formulates, implements, and monitors the monetary policy. The RBI has taken the following initiative by far-

- The governor of the RBI inaugurated Reserve Bank Innovation Hub (RBIH) in Bengaluru. This hub was set up under the Companies Act 2013 as a Section 8 company to create a healthy ecosystem that promotes access to economical products and services for the country's low-income population. The RBI entirely owned this subsidiary.
- The RBI put a mechanism to facilitate INR, with the immediate effect more recently.